



**Investment Office**

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**November 14, 2005**

**AGENDA ITEM 4a**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Real Estate Annual Plan
- II. PROGRAM:** Real Estate
- III. RECOMMENDATION:** Concurrence of "2005-06 Initiatives" noted in Staff's Slide Presentation

**IV. ANALYSIS:**

Staff has prepared the attached performance review which contains a review of the global real estate portfolio and the staff 2005-06 Initiatives. In addition, staff has supplied (not for presentation purposes) an addendum which contains additional slides on individual Non-Core Sector profiles.

The overall real estate return of 51.4% (40.8% after fee) for the fiscal year ending June 30, 2005 reflects the highest return of record for a one-year period. The record high core return of 57.4% (46.4% after fee) versus the NCREIF return of 18.0% was mainly due to the sales in the Core portfolio driven by unprecedented market pricing levels paid by buyers for quality domestic Core portfolios. Non-Core returns were also strong at 40.7% (30.5% after fees).

Real Estate continues to prudently shift from Core to Non-Core higher return/risk domestic and global strategies. Over the past year and a half, 32 new programs were added mainly in the Non-Core area and another 11 are under review. The opportunistic and international sectors are where most of this growth occurred. In addition to discussing performance, leverage, allocation, return expectations, portfolio growth and its impacts, and policy standings of the real estate portfolio, staff will discuss the past year accomplishments, the coming year challenges, and the "2005-06 Initiatives" under recommendation.

It is an exciting time in real estate as the portfolio takes on attractive market opportunities in its higher return/risk strategy and moves from mainly a domestic portfolio into positioning itself as a diversified global real estate portfolio. Our work is not done in terms of addressing all the issues which this market-driven portfolio repositioning has raised. In this coming year, staff and our consultant will work towards addressing those challenges while continuing to respond to market opportunities.

Staff and Pension Consulting Alliance (PCA) look forward to addressing any questions the Committee may have. PCA has reviewed the presentation and supplied the attached concurrence letter (Attachment 1).

**V. STRATEGIC PLAN:**

Goal IV, assure that sufficient funds are available, first to pay benefits and, second, to minimize and stabilize employer contributions.

**VI. RESULTS/COSTS:**

Attached is a presentation highlighting key information about the Real Estate program.

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Amit Aggarwal  
Investment Officer

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Judy Alexander  
Portfolio Manager

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Alfonso Fernandez  
Senior Portfolio Manager

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Michael McCook  
Senior Investment Officer

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Mark Anson  
Chief Investment Officer

Members of the Investment Committee

*Date of meeting here*

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